

Republican Bill Plans for the US to Default

Last week, the Treasury Department announced that extraordinary measures employed to avoid a default on our debt will be exhausted on November 3, but instead of taking action to ensure America pays its bills, House Republicans are bringing an irresponsible bill to the Floor that plans for a default by paying foreign bondholders before other obligations, such as:

- Support for our nation's veterans, including benefits to nearly 4 million disabled veterans, education assistance for nearly 1.1 million veterans, home loan support for nearly 630,000 veterans, and VA health care for almost 5.9 million veterans
- Pay and benefits for 1.4 million active duty troops and 827,000 troops in reserves
- Earned payments to U.S. small businesses that support job creation here at home
- Payments to nearly 1 million doctors and other health care practitioners who provide health care to Medicare beneficiaries
- Nutrition assistance for 30.5 million children participating in school lunch programs
- Payments to almost 50,000 National Institutes of Health grantees, who are saving lives through innovative medical research and are supporting an estimated 300,000 jobs [[Ways and Means Committee Fact Sheet](#)]

This bill fails to meet the obligations we have to millions of families and businesses, yet pays treasury bond holders from China, Japan, Iran, Iraq, and the Cayman Islands; banks, mutual funds, and hedge funds; and other "private bondholders," which include insurance companies, some pension funds, individual investors. [Ways and Means Blog Post, [9/10/15](#)]

Debt prioritization is default by another name, and economists and Republicans agree:

Doug Holtz-Eakin, former CBO Director, McCain campaign advisor, and Bush CEA Chief

Economist: "You open a hornet's nest of nightmares and difficulties for the Treasury, literally — which legal promises on either debt or programs are you going to break?" [The Hill, [10/16/15](#)]

Steve Bell, former Republican staffer with the Senate Budget Committee, now at the Bipartisan Policy Center:

"The economic impact of the United States government not honoring ... literally billions of dollars' worth of domestic commitments, bills, beneficiaries, I think it would change the nature of the United States. **Call it a default, call it a technical default; it doesn't make any difference. You're not paying the bills you owe on time and in full.** As a practical matter, it just can't be done." [New York Times, [1/17/13](#)]

Tony Fratto, former Treasury Department assistant secretary and senior George W. Bush White House staffer:

"The idea that Treasury could prioritize — even if desired — is fanciful & misunderstands federal financing requirements." [AEI Blog Post, [1/15/13](#)]

Keith Hennessey, former President George W. Bush's National Economic Council director:

"Payment prioritization doesn't stop payments, it just delays them. Then the aggrieved party sues the government, and probably wins, and it **turns into a bloody mess.**" [[1/14/13](#)]

S&P Managing Director of Sovereign Ratings David Beers: "It would mean a very sudden fiscal shock that the longer it lasted would filter powerfully through the system. Potentially that would be deeply disruptive to the economy." [Reuters, [7/26/12](#)]

JP Morgan Chief Economist Michael Feroli: It “would be like the financial market equivalent of that Hieronymus Bosch painting of hell.” [Washington Post, [1/14/13](#)]

Congress has a responsibility to protect the full faith and creditworthiness of the United States with a clean bill to pay America’s bills, yet House Republican leaders are once again risking default with political games. Several Republicans – including Speaker Boehner, Ways & Means Chairman Ryan, and Financial Services Chairman Hensarling – as well as business community leaders, economists, and organizations know that taking us to the brink of default is bad policy:

Senate Budget Committee Republicans: “In a budget bulletin, economist William Beach, who formerly worked at the Heritage Foundation, warns the nation risks higher borrowing costs if it even gets close to exhausting the extraordinary measures used to avoid hitting the debt limit...Even a momentary failure to pay the nation’s debts could cause long-term increases in borrowing costs, Beach said...” [Roll Call, [10/2/15](#)]

Speaker John Boehner (R-OH): “I think raising the debt limit is the responsible thing to do for our country, the responsible thing for our economy... if we were to fail to increase the debt limit, we would send our economy into a tailspin.” [WSJ, [3/2/11](#)]

House Ways & Means Chairman Paul Ryan (R-WI): “Some conservative Republicans have urged their GOP colleagues to resist raising the ceiling.... But House Budget Chairman Rep. Paul Ryan says that tactic isn't viable. ‘Just refusing to vote for it, I don't think that's really a strategy,’ he said, noting that a failure to raise the ceiling could result in the nation defaulting on its debts to investors. ‘Will the debt ceiling be raised? Does it have to be raised? Yes,’ he said at an event sponsored by economics21 and the Manhattan Institute at the National Press Club Thursday.” [NBC News, [1/6/11](#)]

House Financial Services Chairman Jeb Hensarling (R-TX): “House Republican Conference Chairman Jeb Hensarling (Texas)... said on CNN's ‘State of the Union’ that **not raising the debt ceiling is not an option...** ‘What I do think is, yes, it would be catastrophic to have the nation default upon its debt,’ Hensarling said.” [The Hill, [4/10/11](#)]

Doug Holtz-Eakin, head of American Action Forum and a former director of the Congressional Budget Office: “The first thing you’ll see is a market reaction... Then you’ve got dramatic impacts on consumer confidence, the world’s melting down again and they go into an economic fetal position ... There’s just no good news there.” [The Hill, [10/16/15](#)]

AARP: “Honoring the full faith and credit of the United States is a core value of our country and fundamental to the economic security of all Americans, not just retirees. As such, the impact of defaulting on any U.S. debt obligation would be felt by all Americans, not just those on Social Security and Medicare... Our members are worried that the benefits they have earned may be cut as part of a deal to reduce the deficit, fund government operations, or increase the debt ceiling, and they are increasingly worried that **if there is no agreement very soon, they may not receive their Social Security checks and may lose access to their health care.**” [Letter, [10/20/15](#)]

Instead of taking us to the brink of default once again – which resulted in the first credit downgrade in U.S. history – Democrats will continue to urge House Republican leaders to bring legislation to the Floor to ensure America can pay its bills on time.